

ILLINOIS POWER COMPANY
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 00-0741
EXHIBITS SPONSORED BY FRANK A. STARBODY
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ILLINOIS COMMERCE COMMISSION

DOCKET NO. 00-0714

PREPARED TESTIMONY OF FRANK A. STARBODY

I. INTRODUCTION AND WITNESS QUALIFICATIONS

1. Q. Please state your name and business address.

A. Frank A. Starbody, 2701 North Martin Luther King Jr. Drive, Decatur,
Illinois 62526.

2. Q. By whom are you employed and in what capacity?

A. I am employed by Illinois Power Company (“Illinois Power” or the
“Company”). My present position is Director - Gas Supply.

3. Q. Please state your educational background and professional experience.

A. I graduated from Illinois State University in May 1980 with a Bachelor of
Science degree in Business Administration. From November 1980 to
December 1992, I was employed by A.E. Staley Company in a variety of
positions. My final position at A.E. Staley Company was a buyer
specializing in energy service. I joined Illinois Power in December 1992
as Gas Supply Administrator. I subsequently held positions as Electric
System Power Coordinator, Team Leader – Gas Supply, and Manager –
Gas Supply and my current position, Director – Gas Supply. I assumed
my presented position in December 2000.

4. Q. What are the responsibilities of your present position?

1 A. I am responsible for procurement of Illinois Power's natural gas supply
2 and pipeline capacity, transportation of customer-owned natural gas, and
3 Illinois Power's storage and transmission assets.

4 **II. PURPOSE AND SCOPE**

5
6 5. Q. What is the subject of your testimony in this case?
7

8 A. My testimony addresses the Company's natural gas and pipeline capacity
9 procurement activities during 2000.

10 **III. DESCRIPTION OF SUPPLY SOURCES**

11
12 6. Q. What are the sources of the Company's gas supply and transportation?
13

14 A. In 2000, Illinois Power purchased 55.2 million MMBtu of natural gas
15 from various producers and marketers. Illinois Power also leased
16 transportation and storage capacity via five interstate pipelines.

17 7. Q. Do each pipeline's facilities serve a particular geographic area?

18 A. Historically, interstate pipelines served distinct geographic areas within
19 Illinois Power's service territory. Over a period of years Illinois Power
20 has constructed additional pipeline interconnections and transmission
21 facilities between several of these formerly distinct areas. The resulting
22 competition between pipelines and the flexibility to transfer natural gas
23 between these areas enables Illinois Power to minimize its supply and
24 transportation costs.

25 8. Q. How are the prices and contract terms for pipeline services determined?

1 A. Maximum pipeline rates and contract terms are approved by the FERC as
2 a result of hearings or negotiated settlements. However, in many cases
3 Illinois Power has been able to negotiate discounted rates with interstate
4 pipelines.

5 9. Q. For 2000, how did Illinois Power determine the pipeline capacity that
6 should be purchased and the firm winter gas supply that should be
7 reserved?

8 A. Illinois Power designs its supply portfolio so that firm natural gas supply
9 is sufficient to meet requirements on a peak day. For 2000, Illinois Power
10 reserved sufficient pipeline capacity and firm winter natural gas supply to
11 serve, along with storage deliverability, the load expected in weather
12 conditions equivalent to the coldest in the previous twenty years.

13 10. Q. Please explain how Illinois Power structured its supply portfolio to meet
14 these objectives.

15 A. The Company's mix of purchases was designed to provide firm natural
16 gas supply and transportation to meet all firm load. Firm supply was
17 reserved from those suppliers providing the lowest reservation cost.
18 Natural gas to be supplied under these contracts was priced with
19 appropriate market indices. However, Illinois Power continued to search
20 the market for opportunities to purchase less expensive supply whenever
21 possible. In the summer months, Illinois Power purchased natural gas as
22 needed, awarding contracts to those suppliers offering the best price.

1 11. Q. Does Illinois Power solicit bids for firm natural gas supplies from a wide
2 range of potential suppliers?

3 A. Yes. Through its ongoing monitoring of the market, Illinois Power's Gas
4 Supply personnel maintain awareness of those suppliers capable of
5 providing the required gas packages at points required by the Company.
6 This list of potential suppliers is constantly changing as a result of
7 mergers, spin-offs, start-ups, supplier dissolution, or changes in supplier
8 profiles. Illinois Power solicits bids for firm supply from all suppliers
9 with an established history of providing reliable supply. In reserving firm
10 gas supplies for the 2000-2001 winter season, Illinois Power sought bids
11 from 36 suppliers who were believed to be able to provide firm gas
12 supplies for the required periods. Of these 36 suppliers, 26 returned bids.
13 Ten of these bidders were selected to provide firm supply, based on price
14 (lowest reservation cost).

15 12. Q. Does entry into contracts with suppliers for firm winter gas supplies
16 commit Illinois Power to purchasing gas from those suppliers?

17 A. Most of Illinois Power's firm winter gas supplies are purchased on a swing
18 basis which allows Illinois Power to continue to solicit supplies from
19 alternative sources. The Company's Gas Supply personnel continue to
20 purchase the least-expensive delivered supply available." The Company's
21 Gas Supply personnel evaluate on both a monthly and a daily basis the
22 amount of gas supply which needs to be purchased for the upcoming
23 month or day, respectively.

1 13. Q. How does Illinois Power determine the suppliers from which it will make
2 spot gas purchases?

3 A. Illinois Power typically solicits bids for its spot gas purchases from
4 approximately 60 suppliers. This list generally includes those suppliers
5 who are thought to be capable of providing reliable firm gas supplies, as
6 well as additional suppliers not on the list of suppliers from which bids for
7 firm gas supplies are sought. Bids to supply spot gas that are received by
8 the Company are analyzed by Gas Supply personnel to determine which
9 supplies can be delivered most cost efficiently. In addition, Gas Supply
10 personnel monitor published indices daily to verify that the best-cost mix
11 of supplies is being purchased. Contract awards are made to the most
12 economically priced, reliable bidders, up to the amount of the Company's
13 anticipated needs for the day or month in question.

14 14. Q. What form of contract does Illinois Power enter into with natural gas
15 suppliers?

16 A. Illinois Power typically uses the industry-standard contract form that has
17 been developed by the Gas Industry Standards Board. Use of this
18 industry-standard contract form enables Gas Supply personnel to focus
19 their evaluations on a potential supplier's price and reliability, without the
20 need to devote significant attention to negotiating other terms and
21 conditions of the transaction.

22 15. Q. Did Illinois Power purchase any natural gas or transportation capacity
23 from an affiliate during the reconciliation period?

1 A. Yes. Illinois Power made purchases from Dynegy Marketing and Trade
2 prior to the two companies becoming affiliates in February of 2000 as a
3 result of the closing of the Dynegy-Illinova merger, and the Company
4 continued to make purchases from this supplier after the closing of the
5 merger. Purchases from Dynegy Marketing and Trade, as from any
6 supplier, were made only when they were the best-priced alternative. In
7 2000, less than 20% of Illinois Power's total gas supplies by volume were
8 purchased from Dynegy Marketing and Trade.

9 **IV. OTHER SOURCES OF SUPPLY**

10
11 16. Q. Please describe Illinois Power's purchases of locally produced gas in
12 2000.

13 A. In 2000, Illinois Power purchased 114,823 MMBtu, or about 0.2% of total
14 purchases, from one intrastate producer.

15 17. Q. Does Illinois Power use synthetic gas derived from naphtha, propane, or
16 liquefied natural gas (LNG) to augment its natural gas supplies?

17 A. Illinois Power began the reconciliation period with one propane plant
18 facility with peak day deliverability equivalent to 20,000 MMBtu of
19 natural gas; however, this facility was retired during the reconciliation
20 period. As a result, during the reconciliation period Illinois Power used
21 existing propane inventory to operate the propane plant prior to its
22 retirement, and did not need to acquire additional supplies of propane.
23 The Company did not make use of LNG during the reconciliation period.

24 18. Q. Please describe the Company's gas storage facilities.

1 A. Illinois Power began the reconciliation period with eight underground gas
2 storage fields. One field was retired during the reconciliation period. The
3 Company's storage fields had a rated deliverability of approximately
4 317,000 MMBtu/day, which was reduced to 312,000 MMBtu/day after the
5 retirement of one storage field. In addition, Illinois Power augmented its
6 storage capacity by leasing several storage services from a total of four
7 interstate pipelines.

8 19. Q. Does Illinois Power utilize its gas in storage to mitigate the impacts of
9 higher winter spot gas prices?

10 A. Yes, to the extent possible consistent with maintaining assurances of
11 reliable supply for the entire winter season. Since the potential peak day
12 coverage period extends into February, certain limitations are placed on
13 storage withdrawals early in the winter season to ensure deliverability
14 throughout the potential peak day coverage period. However, due to the
15 high cost of commodity gas experienced during the winter of 2000-2001,
16 the Company made every attempt to withdraw gas from its storage fields
17 to the extent deemed not critical to maintaining peak day coverage
18 reliability and the physical and contract limitations of each field.

19 **V. TRANSPORT GAS**

20
21 20. Q. How much customer-owned gas did Illinois Power transport on its
22 distribution system during 2000?

23 A. In 2000, Illinois Power transported 32.0 million MMBtu for customers on
24 its distribution system.

1 21. Q. Does this conclude your prepared testimony?

2 A. Yes, it does.

